

DEPARTMENT OF THE NAVY

Washington

April 23, 1941

Sirs:

Article 8 of the Navy Department Contracts Nod-1122 and Nod-1123 and Article 9 of Contracts Nod-1376, Nod-1377, Nod-1430, Nod-1432, Nod-1433, Nod-1497, Nod-1500, Nod-1503, Nod-1642 and Nod-1732 require that when a vessel is substantially complete, except for minor items of work which may, in the discretion of the Secretary of the Navy, be left unfinished until after the trials and when the Contractor shall have made sufficient trials at dock and in free route (the "Builder's Trials") to be reasonably sure of satisfactory performance, the vessels shall be subjected to trials under the supervision of a Trial Board. The details of these trials are specified in the contracts and the detail and special specifications.

During the Builder's Trials, operation of the vessel normally is carried on in practically the same manner that the vessel is required to operate during the preliminary trials and compliance with the specification requirements for part or all of the preliminary trials may be satisfactorily demonstrated.

In the interest of expediting completion and delivery of the vessels under Contracts Nod-1122, Nod-1123, Nod-1376, Nod-1377, Nod-1430, Nod-1432, Nod-1433, Nod-1497, Nod-1500, Nod-1503, Nod-1642 and Nod-1732, the Secretary of the Navy hereby authorizes the following change in the provisions of these contracts:

Article 8 - Contracts Nod-1122 and Nod-1123:

Article 9 - Contracts Nod-1376, Nod-1377, Nod-1430, Nod-1432, Nod-1433, Nod-1497, Nod-1500, Nod-1503, Nod-1642 and Nod-1732:

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Before the paragraph with the marginal caption, "Additional trials", insert the following paragraph:

" Such of the preliminary trial requirements as may be performed on the builder's trials to the satisfaction of the Trial Board may be accepted by the Trial Board as fulfilling such requirements. Any tests which have been omitted from the preliminary trials as a result of this provision will be submitted to the Board on Changes for determination of the decrease in cost, if any, resulting from such curtailment of the preliminary trials."

It is requested that receipt of this letter be acknowledged.

Respectfully,

Ralph A. Bard

Acting Secretary of the Navy

Federal Shipbuilding and Dry Dock Company  
Kearny, New Jersey

CC: BuShips  
BuS&A  
CompBd (3)  
BdI&S  
SupShip, Kearny, N. J.

Art. 9. When each vessel is substantially complete as required by this contract, except for minor items of work which may, in the discretion of the Chief of the Bureau of Ships, be left unfinished until after the trials, and when the contractor shall have made sufficient trials at dock and in free route to be reasonably sure of satisfactory performance, the vessel shall be subjected to trials under the supervision of a trial board designated by the Secretary of the Navy to test her and her speed. Such trials shall be as provided in the Detail Specifications and the Special Specifications for Propelling Machinery applicable to the vessel.

One vessel to be built under this contract, to be designated by the Department, shall be subjected to complete trials as set forth in the aforesaid Detail and Special Specifications. The remaining vessels shall be subjected to such abridged trials as are set forth in the aforesaid specifications.

The Trial Board will arrange the required trials so as to obtain the data specifically required to determine whether the requirements of this contract have been met, and also to obtain, insofar as practicable, any other useful data desired by the Board. Should any vessel fail to complete satisfactorily any of the trials to which it is subjected, such trials may be repeated on that vessel or on any of the other vessels as may be directed by the Secretary of the Navy. If, however, any of the runs specified can be eliminated without impairing the adequacy of the trials, such runs may be eliminated at the discretion of the Board.

On all of the specified trials there shall be observed and recorded, by representatives of the Trial Board, such data as may be considered by the Board to be of professional interest and such data as are required by the governing specifications.

The mean trial displacement, auxiliary machinery in operation during trials, and all trial equipment for determining shaft horsepower, speed, fuel consumption, and other data shall be as provided in the aforesaid specifications. The vessel on trial shall be so loaded and ballasted as to have approximately the same mean draft, trim, and metacentric height as in service condition.

If, upon the trials, there shall be any failure of the vessel or its equipment to meet fully the requirements of this contract, the contractor shall be entitled to make further trials, sufficient in number to reasonably demonstrate her capabilities. *Provided*, That the number of trials shall be determined and limited by the Secretary of the Navy.

The cost of all trials prior to the preliminary acceptance of the vessel, including the subsistence and lodging of all persons ordered by the Department to be on the vessel for the purpose of the trials, shall be at the contractor's expense.

Changes in the trial requirements will be treated as changes under this contract and the increased or decreased cost resulting therefrom will be determined as provided in Article 6 hereof.

After the trials have been completed, the vessel shall be returned to the plant of the contractor, and the machinery shall be opened up for such post-trial examination as the Trial Board may direct. Any defects or deficiencies for which the contractor is responsible will be corrected by and at the expense of the contractor as directed by the Department, after which the machinery shall be closed and connected ready for service: *Provided, however*, That the cost of correcting any defects or deficiencies in Department-supplied material for which the contractor is held not responsible shall be determined and handled as a change under this contract, as provided in Article 6 hereof.

Such trials as the Department may reasonably require may be run after the post-trial examination in order to prove that all machinery has been properly reassembled.

Art. 10. (a) If, on the trials and the post-trial examination, the foregoing requirements and conditions shall be fulfilled, and if the various requirements of this contract, including delivery, shall be fully met, the vessel shall be preliminarily accepted and payment shall be made to the contractor as specified in Article 11 hereof.

(b) During the guarantee period hereinafter defined the vessel shall be finally tried, after being fully equipped and armed and in all respects complete and ready for sea, under conditions prescribed by the Secretary of the Navy; the expenses of such final trial shall be borne by the Department. If any weakness, deficiency, defect, failure, breaking down, or deterioration in the vessel for which the contractor is responsible shall develop within such guarantee period, it shall be corrected and repaired to the satisfaction of the Secretary of the Navy at the expense of the contractor. Such guarantee period shall be the six (6) months' period immediately following the date of preliminary acceptance extended by the time, if any, but only such time, during which the vessel is not available for unrestricted cruising service on account of any weakness, deficiency, defect, failure, breaking down, or deterioration for which the contractor is responsible. The contractor may, if it so desires, and if the exigencies of the service, in the discretion of the Secretary of the Navy, permit, have an engineer of its own selection, who is acceptable to the Department, on board the vessel at any time during said period; such engineer shall have full opportunity to observe and inspect the working of the vessel in all its parts, but shall have no directing or controlling power over its operation.

(c) Upon the expiration of the guarantee period, determined as specified above, the vessel shall be finally accepted, and final settlement shall be made as provided in Article 11 hereof.

Art. 11. (a) The Department will pay for the vessels to be constructed and furnished in accordance with this contract thirty-three million, four hundred and seventy-four thousand dollars (\$33,474,000), of which five million, five hundred and seventy-nine thousand dollars (\$5,579,000) shall be considered as the contract price of each vessel, subject to adjustments for the net increase for changes in labor and material costs as provided in Section (1) of Article 12 hereof.

(b) Payments on account of each vessel shall be made by the Department in semi-monthly installments, as earned, or more frequently if expenditures by the contractor justify such action; no installment, however, shall be less than one percent (1%) of the contract price of each vessel covered by this contract.

(c) Payments shall be made from time to time for changes involving increased costs as the work involved in such changes is completed and the costs determined as hereinbefore specified: *Provided, however*, That the Secretary of the Navy, in his discretion, may make partial payments on account of adjudicated parts of changes involving increased cost in advance of completion of the change as a whole. Deductions for changes involving decreased cost shall be made as prescribed in this article.

Particular  
settlement.

Maximum li-  
ability.

Final settlement.

Adjustment.

Contractor labor.

Contractor  
material.

Adjustments-  
subcontracts.

Payment for  
adjustments.

Change in method  
of adjustment.

(d) Payment of the last four percent (4%) of the contract price of each vessel shall not be made except as hereinafter provided.

(e) On preliminary acceptance of each vessel, payment to the contractor shall be made of the amount that shall be determined as follows: From the amount remaining unpaid of the contract price of such vessel, increased or decreased on account of changes and extras as hereinbefore provided for and increased on account of adjustments required by reason of changes in labor and material costs as hereinafter provided, there shall be deducted the sum of (1) the amount of the estimated cost of completing uncompleted work under this contract, if any, and of correcting any and all defects or deficiencies, for which the contractor is responsible, then known to exist and (2) a special reserve of one hundred thousand dollars (\$100,000) on account of such vessel. The said special reserve shall be held during the guarantee period. If the amount of any increase or decrease in the contract price caused by any of the changes or extras or adjustments shall not have been determined at the time such payments should be made, an estimate made by the Department of the amount of such increase or decrease or adjustment, may, in the discretion of the Secretary of the Navy, be used pending the determination of the actual amount thereof.

(f) Anything in this contract to the contrary notwithstanding, the total cost, with respect to each vessel, chargeable to the contractor of correcting and repairing any weaknesses, deficiencies, defects, failures, breaking down or deterioration which shall develop within the guarantee period shall not exceed the amount of the special reserve withheld pursuant to the provisions of paragraph (e) of this article by more than twenty-five thousand dollars (\$25,000).

(g) Final payment of the balance due the contractor shall be made as provided in the General Provisions.

ART. 12. (1) The contract price stated in Article 11 is subject to adjustment for the increase for changes, separately, in labor and material costs, in accordance with the following method:

(a) LABOR. Adjustment with respect to labor costs shall be made on the basis of monthly average hourly earnings for the shipyards constructing naval vessels and vessels building for the United States Maritime Commission, as furnished to the Department by the Department of Labor (hereinafter called the Labor Index). Adjustments shall be calculated with respect to each calendar quarter up to the completion dates provided in Article 8. The percentage increase or decrease in the quarterly index (obtained by averaging the Labor Index for each month of the calendar quarter) shall be obtained by comparison with the Labor Index for the basic month. The basic month shall be May 1940. The labor adjustment for each calendar quarter, as determined by the Compensation Board, shall be obtained by applying such percentage of increase or decrease to the total amount expended by the contractor for direct and indirect plant labor during such quarter.

(b) MATERIALS. Adjustment with respect to materials shall be made on the basis of the materials index for Group VI, Metals and Metal Products, as furnished to the Department by the Department of Labor (hereinafter called the Materials Index). Adjustments shall be determined by the Compensation Board with respect to each calendar quarter up to the completion dates provided in Article 8. The percentage of increase or decrease in the quarterly index (obtained by averaging the Materials Index for each month of the calendar quarter) shall be obtained by comparison with the Materials Index for the basic month. The basic month shall be May 1940. The material adjustment for each calendar quarter shall be obtained by applying to the aggregate amount of the firm quotations for materials received by the contractor during such quarter the percentage of increase or decrease shown by the Materials Index for that quarter which the price of such item of material became fixed: *Provided, however*, That the Secretary of the Navy may deny or reduce the adjustment with respect to any item if he finds that it would have been practicable to have obtained a firm quotation therefor on an earlier date.

(c) SUBCONTRACTS ON ADJUSTED PRICE BASIS. If the contractor shall have obtained in advance the written approval of the Secretary of the Navy or the Chief of the Bureau of Ships as his duly authorized representative, he may enter into a subcontract on a cost-plus-a-fixed-fee basis, on a price-adjustment basis substantially similar to the provisions of paragraphs (a) and (b) of this article, or on such other basis as may be approved. With such approval the contractor may, in computing the adjustments under this article, include the expenditures of such subcontractor for direct and indirect plant labor and the aggregate amount of the firm acceptable quotations for materials received by such subcontractor as though the operation of such subcontractor were consolidated with that of the shipbuilder: *Provided*, That no subcontracts which adjustments are made under this paragraph shall be included in making adjustments under paragraph (b) of this article: *Provided further*, That no adjustments shall be made to the Department in its account with the contractor by reason of a subcontract under this paragraph unless the contractor shows that it has made adjustment in like amount in its account with such subcontractor: *And provided further*, That in case the contractor shall place orders with a yard or plant of the contractor other than that hereinabove mentioned for materials or work required for said vessel/vessels, such orders shall be considered as contracts or subcontracts for the purposes of subdivisions (b) and (c) of this article.

(d) Payments for increases in contract price, resulting from the above, will be deferred until preliminary settlement: *Provided, however*, That the Secretary of the Navy may make partial payments on account of such increases as may accrue from time to time subject to such requirements as a condition precedent to such payments as he may prescribe.

(e) The Secretary of the Navy reserves the right to substitute for the Labor Index or the Materials Index any other method or index should it appear at any time, in the judgment of the Secretary of the Navy, that the specified indices do not reflect equitably the increases or decreases in costs of material or labor under the contract: *Provided*, That the Secretary of the Navy may appoint a board for the purpose of determining the revised adjustments for the increased amounts, if any, on account of changes in labor or material costs and the contractor will be bound by the findings of such board upon approval thereof by the Secretary of the Navy.

FOR CHANGE IN ARTICLE 12(1)(c), SEE

LETTER OF JANUARY 22, 1942 IN CONTRACT